

STATE OF WISCONSIN
DEPARTMENT OF HEALTH AND FAMILY SERVICES
DIVISION OF MANAGEMENT AND TECHNOLOGY
BUREAU OF FISCAL SERVICES

ACCOUNTING PROCEDURE

TOPIC: Section 4--Receivables 2.0	EFFECTIVE DATE: 12/5/94
TITLE: Debt Collection Policies--External Parties	REVISION DATE: 01/23/02
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BACKGROUND

Accounts receivable are created when a liability to a DHFS unit occurs. Ordinarily, this occurs when a DHFS unit issues an invoice for goods or services provided to any organization or recipient. Many other circumstances also create receivables, such as:

- Amounts due DHFS as a result of advances or payments under contracts to counties, nursing homes or other agencies where the spending is less than the advances or payments.
- Amounts due DHFS as a result of audit findings which reflect unused advances or reimbursements in excess of allowable costs.
- Overpayments, or payments in error, to vendors or providers.
- Any other circumstance where an obligation of money is due DHFS.

Division and institution management and staff should rely upon these policies and procedures in their operation and oversight of receivable activities. Bureau of Fiscal Services (BFS) staff should use these guidelines in their monitoring of collection activities and to assure proper documentation when journal vouchers are submitted as part of a write-off request.

Note: The provisions in this directive do not apply to the operations or accounts of the Billing and Collections Unit, Bureau of Fiscal Services (BFS).

POLICY

It is the Department's policy to maximize revenues through timely and systematic collection efforts and to apply cost-benefit principles to the collection of receivables. Effective collection efforts are essential to proper receivable management. Minimum collections of receivables shall be:

1. **Billed Timely.** Invoices are to be prepared as soon as it is determined a receivable is due DHFS, following the procedures set forth in **SECTION 4, RECEIVABLES 1.0 (Billing Procedures)**. Any decision not to bill valid obligations or any decision to cancel valid existing obligations must be

justified and needs the approval of the Administrator of the Division of Management and Technology, or designee. Each organization should establish, within DHFS policies and procedures, the terms and/or conditions for payment at the time an account is created.

2. **Collected Promptly.** It is the responsibility of each DHFS organization to monitor their accounts receivable to assure that timely and appropriate collection policies are in place.

To increase the likelihood of collection, accounts should be collected within 60 days, and any account outstanding for more than 90 days shall be evaluated to determine if further credit should be granted or payments made to that recipient. Any account more than 90 days overdue requires immediate attention.

Every effort should be made to collect receivables during the fiscal year of origin. This increases the likelihood of collection and maximizes the program benefit.

3. **Handled in Accordance with Standards for Collection Efforts.** Receivable management is an important revenue-producing activity. Divisions and institutions should ensure that receivable activities are well-defined and that staff is adequately trained in collection efforts and properly supervised.

The collection effort may be influenced by the amount due as indicated by levels of collection activity. The expenditure of time and money to collect a large amount is appropriate whereas the same effort expended to collect a small amount may not be. If one approach fails, another approach may result in a successful collection. For example, telephone contacts may be required if there has been no response to written communications.

4. **Subject to a Thorough and Concerted Collection Effort.** Collection efforts are to be regular and coordinated with at least one attempt to collect in each thirty-day period. Collection agencies are to be used when the organization's efforts are not successful.

Department of Administration (DOA) standards require "thorough and concerted" collection efforts for receivables larger than \$1,000. "Thorough and concerted" efforts include multiple strategies, including demand letters, telephone calls, installment plans, a collection agency, tax intercept, judgments, garnishments, liens, or other legal action. For receivables of \$1,000 or more, three strategies should generally be pursued. For receivables of \$2,000 or more, referral to the Department of Justice (via OLC) is required.

5. **BFS Technical Assistance.** DHFS organizations may submit receivables greater than \$100 and more than 90 days overdue to the Bureau of Fiscal Services (BFS), Processing Section, for technical assistance in the collection effort. BFS will promptly review and either take action or advise the organization of actions to be taken. The facts and circumstances of particular receivables may result in additional collection efforts being required. In all cases, receivables are the

responsibility of the organization that incurred them. Approval of write-off's in accordance with this policy, assistance with collection and accounting efforts, and advice on further collection efforts are available from BFS.

6. **Applicability.** Unless BFS has approved in writing an alternative bad debt and collection policy, these guidelines apply to all divisions and institutions regardless of program.

PROCEDURES

1. **Timely Billing.** Divisions and Institutions shall issue an invoice within 30 days of the provision of goods or services or determination of other debts, such as salary overpayments. The invoice shall, at a minimum, include the amount due, the due date for payment, a brief description of why the amount is due (for example, "for training on April 1, 1999" or "salary overpayment"), where to remit payment, and a contact for questions. The WiSMART Accounts Receivable Subsystem (ARS) module is recommended to do this billing.
2. **Timetable for Routine Collection Efforts.** The following are the minimum collection efforts for accounts receivable from non-state recipients.
 - a. If a receivable remains uncollected for a period of 30 days, a follow-up letter must be issued within 15 days, 45 days after the invoice date. The demand letter must clearly specify the payment date, the amount due and the name and phone number of a person to be contacted if there are any questions.
 - b. If a receivable remains uncollected for a period of 60 days, a second demand letter must be issued within 5 days, or 65 days after the invoice date. The second letter should contain the same information as in the first collection letter and establish that progressive action will be taken until the payment is made. The second letter is generally to be signed by a higher authority and should refer to the fact that payment has not been received. In addition, the Department of Administration recommends that telephone contact be made if there is no response to collection letters.
 - c. Within 7 days after the 90 day period, the Management Director, or designee, shall determine if further credit will be granted or if payments will be made, or credit extended, to any recipient or organization with an account over 90 days old. In addition, the account should be referred to a collection agency, or an installment plan proposed, or both.
3. **Levels of Collection Efforts.** DOA has established various thresholds for levels of collection effort. At a minimum, the following collection efforts are required based upon the amount of the receivable.

Amounts between \$100 and \$1,000. Three demand letters and referral to a collection agency are required. DOA requires referral to a collection agency if other collection efforts fail.

Receivables of \$100 or more must be referred to a collection agency if the organization's collection efforts are exhausted. The responsibility for doing business with a collection agency lies with the billing organization. Each division is responsible for establishing procedures for referrals to a collection agency and paying any invoices received for collection services. The Management Director, or designee, may forward the receivable to a collection agency without prior BFS approval. For questions related to the current collection agency used by the Department, contact the Processing Section.

If returned as uncollectible by the collection agency and the amount due is between \$100 to \$1,000, the receivable may be submitted to BFS for write-off with no further action needed by the Divisions.

Amounts Greater than \$500. Amounts greater than \$500 should be referred to the Department of Justice (DOJ) when debtor resides in Dane County.

Amounts Greater than \$1,000. All accounts of \$1,000 or more must be approved for write-off by the State Controller's Office (SCO).

Amounts Greater than \$2,000.00. For amounts greater than \$2,000, referral to DOJ shall be made via the DHFS Office of Legal Counsel (OLC).

4. **Installment Plan.** A repayment plan may be established provided it is in writing and signed by the debtor and a division/institution representative. Repayment plans should be for a reasonable amount, with a minimum amount due of \$50.00 per month (amounts less than \$50.00 per month are too expensive to process). Generally, 3% of gross income per month is considered an appropriate amount. In addition, installment plans must be for a reasonable period of time. Processing must approve installment plans handled via ARS prior to acceptance by the division representative to ensure that the terms are manageable. (See Attachment 1 for the Installment Agreement to Repay Debt to DHFS.)

Billing organizations should monitor the terms of the repayment plan to assure that regular payments are made. The existence of an installment plan does not in any manner relieve the division or institution from continuing obligations to collect the receivable. Reminder notices should be sent within 30 days if payments aren't received, and telephone calls made if reminder notices are not effective. If payments are not received for a period of three months, the receivable should be referred to a collection agency after a notice to that effect is sent to the debtor.

5. **Timeliness of Collection Efforts.** Collection efforts must be timely at all stages of the collection process. The probability of collection decreases substantially after ninety (90) days and after one year. "Timely collection effort" is defined as one collection effort in a thirty (30) day period of time except when receivables are at a

collection agency, Office of Administration Hearings, BFS, or DOJ. When receivables are returned as uncollectible by the collection agency, the division or institution must take any required additional collection efforts within 30 days.

Division and institution managers have the responsibility for ensuring that collection efforts meet all applicable requirements. Any indication of non-timely collection efforts or collection efforts that are not thorough or concerted requires immediate corrective action.

Under no circumstances should the statute of limitations be exceeded without thorough and concerted collection efforts and consultation with the BFS and OLC.

6. **Unknown Addresses.** Commonly, collection letters will be returned by the post office as "address unknown." "Unknown address" is **not** a valid reason for write-off unless the receivable is \$50.00 or less.

Each organization has the responsibility to use available resources to trace address changes if the receivable balance is greater than \$50.00. Some of these resources are telephone calls to the debtor if the telephone number is known, telephone books, directory assistance, the Department of Transportation's Division of Motor Vehicles, the Department of Regulation and Licensing for addresses and telephone numbers of licensed professionals, and internal resources such as program information.

If the receivable is greater than \$100.00 and available information does not yield a valid address, referral to a collection agency is required. Collection agencies employ skip tracing methods to locate individuals and businesses. If the collection agency returns a receivable as "hopeless skip," the account may be written off by the division or institution if the amount is \$1,000.00 or less or recommended for write-off if the amount is greater than \$1,000.00. Generally, referrals to DOJ should not be made if no address can be determined, and the collection agency has returned the receivable as a "hopeless skip."

7. **Disputed Amounts.** Disputed amounts are not uncommon in debt collection. The responsibility of the division or institution is to provide in a timely manner, information that will demonstrate that a debt is due to DHFS. In some cases, referral to the OLC may be needed to resolve legal issues that arise. Normally, this information should be provided within 30 days or less.

Under no circumstances should debt collection cease due to a disputed payment unless substantial doubt exists as to the validity of the receivable or OLC instructs the division or institution to cease collection efforts.

Disputed amounts appealed to the Office of Administrative Hearings will cease any collection efforts for the period of time the amount is under appeal. The division or institution has the responsibility to monitor the status of the appeal and to contact the assigned OLC attorney when appeals to not appear to be progressing normally.

Adjustments made to receivables as the result of a review of a disputed amount may not require write-off approval, provided they are less than \$1,000.00, but must be reported as an adjustment on the quarterly and annual reports of receivables. Adjustments to receivables balances must clearly state a valid reason for adjustment and be properly documented. Adjustments must be approved by someone other than the person(s) who maintain the receivables records or collect receivables.

8. **Bankruptcy, Dissolutions and Other Ownership Changes.** Federal, state and DHFS policy require debt collection to continue to the extent possible under the relevant laws when bankruptcy or other legal status of an organization changes. Upon any indication of impending bankruptcy, the receivable should be referred to OLC immediately for assistance. Normally, collection efforts will not continue once bankruptcy is filed; however, attorneys may take action through the bankruptcy court.

Similarly, corporate dissolutions, sale of a business or any change in ownership should be referred to OLC for legal assistance. In these cases, collection efforts should continue since receivables are generally transferred to new owners, or they may be the personal responsibility of a sole proprietor or partner. In these instances, collection should continue until OLC advises otherwise. It is the responsibility of the division or institution to follow all leads in collecting these debts and to continue to send demand letters or refer the receivable to DOJ for collection, via OLC.

9. **Record-keeping and Audit Trail.** Debt collection requires adequate record-keeping to demonstrate that thorough and concerted collection efforts were done, and to provide an audit trail for internal and external auditors. Most importantly, any legal action require complete documentation of all facts relating to the receivable, including documentation of the overpayment or invoice, any disputed amounts and their resolution and all collection activities.

Record-keeping for collection efforts include dates and results of telephone calls, envelopes returned with address unknown and certified letter stubs. Electronic records or a hard copy should be preserved as the relevant audit trail. The loss of any of these materials could jeopardize further collection activities.

ATTACHMENTS

1 Installment Agreement to Repay Debt to DHFS

REFERENCE

DOA External Accounting Manual V, G
SECTION 4, RECEIVABLES 1.0 (Billing Procedures)

CONTACT PERSON

Section Chief
Processing Section
Bureau of Fiscal Services

ATTACHMENT 1

Department of Health and Family Services (DHFS)
Bureau of Fiscal Services
Processing Section

INSTALLMENT AGREEMENT TO REPAY DEBT TO DHFS

Payer:

Name

Address

City, State Zip

Telephone Number (Please include area code)

Debt Type:

DHFS Unpaid Invoice

Invoice Number: _____

Balance Due:

\$ _____

1. I agree to make payments to satisfy this obligation **in full** within 3 months of the date I sign this agreement.
2. Payments will be made (please check one):
☐ Weekly ☐ Bi-weekly ☐ Monthly in the amount of \$ _____
3. My first payment of \$ _____ is enclosed.
4. I understand that this agreement is valid only if I sign below and return with my first payment to DHFS within 10 days of receiving this agreement.
5. I understand that if I do not pay according to this agreement, or fail to make other arrangements with DHFS, the Department may refer the unpaid balance of my debt to a collection agency with no further notice to me.

Signature

Date

Instructions

1. If you have further questions, or wish to make other payment arrangements, please contact the **Bureau of Fiscal Services** at **(608) 261-8870**.
2. Make your check payable to the **Department of Health and Family Services**.
3. Mail your check and a signed original agreement to:

Department of Health and Family Services
Division of Management & Technology
Bureau of Fiscal Services
1 West Wilson Street
P.O. Box 1668
Madison, Wisconsin 53701-1668